VALUE PARTNERSHIP

Expert guides through organisation critical challenges

8 Leadership Team Foundations
A series of 8 Blogs

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Our research - '8 Leadership Team Foundations to Thrive in Today's Dynamic World' - revealed the key challenges of leadership teams faced with the pace and unpredictability of change and the impact this is having on strategy execution and business performance. We set out the foundations we believe are required to provide organisational leadership that effectively sustains business competitiveness. In this series of blogs, we take each of these eight foundations and examine them in more depth.

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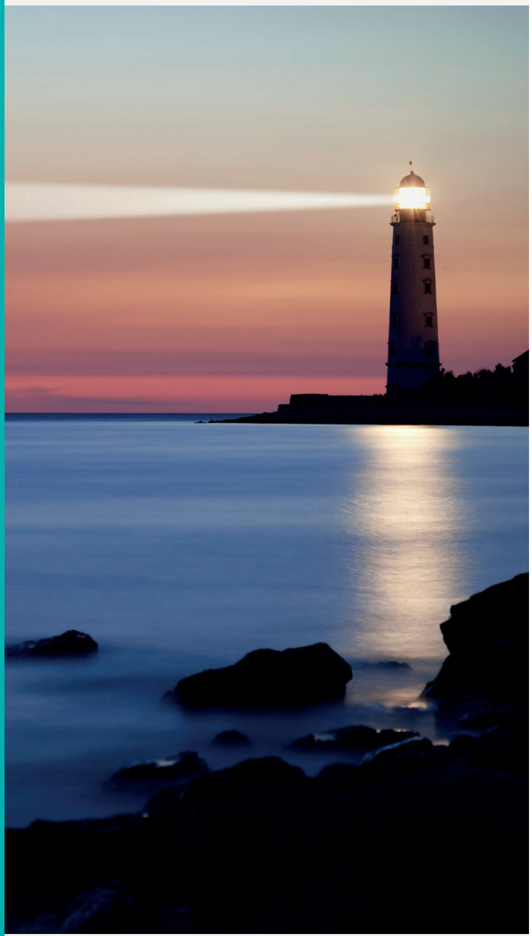
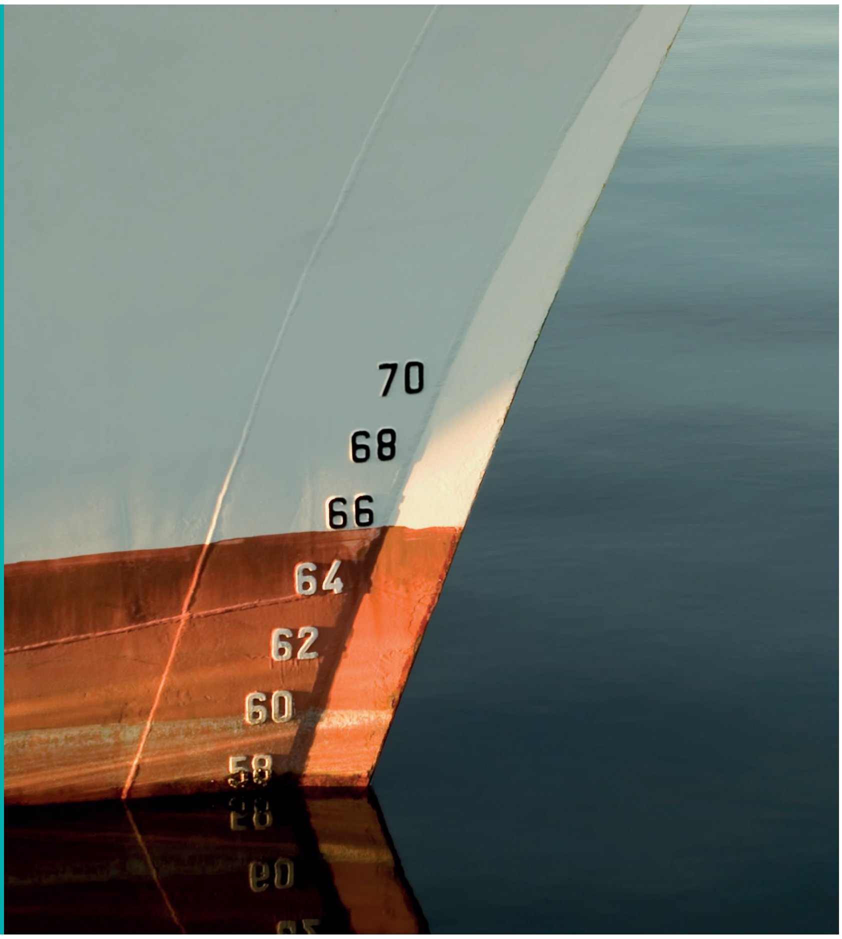


#1 Investors who share the leadership team's commitment



"As inventions go, the public company is one of capitalism's greatest". So wrote the Economist (February 2015), going on to recognise the advantages of the Plc as an exit strategy for entrepreneurs, hence driving innovation, bringing open scrutiny and giving ordinary people a chance to share in wealth creation.

But the recent past has shown that the model has a downside. The collapse of Enron and Lehman Brothers brings into question the level of real scrutiny. More recently and closer to home, the problems experienced by Tesco in the UK serve to underline that not all is well in this world.

Not all companies choose the public flotation route to help finance their business growth. In the UK there are examples of companies who have performed consistently well but have remained 'family' companies; for example John Lewis, JCB and Dyson. There is also a growing list of companies owned by Venture Capitalists who take a very active role in the strategy, performance and leadership of the companies in which they invest. Why wouldn't they? It is their money. Active shareholders, more prevalent in the US than the UK, are also changing the investor landscape and arguably shaking up the comfortable world of the US corporate. Very recently the growth in peer to peer lending has provided alternative funding opportunities.

We can debate the merits of different sources of finance but the heart of the matter is whether the investors are ready to back the vision of the Board and have the quality of relationship in place for the company to pivot and adjust direction as today's complex, chaotic world demands.

If the leadership of the company, essentially the Board, does not share a common vision and purpose for the company with the investor community, then it is this that will lead to problems, whatever the nature of the investor. The impact may be felt in different ways; an institution dumping shares creating a negative market reaction, or continuous infighting between the Board and the investment community – diverting energy and/or leading to a change in leadership. But these are outcomes; the underlying issue is the relationship between the Board and the investor community.

From our experience this points to the need for the leadership team to regularly review its investor community. Are they composed of those who are well placed to provide sustained support to the enterprise? Do they share a common view of the opportunities and challenges facing the business? Are they long term investors who know the industry and have a clear understanding of the cycles that will affect the short term performance?

Understanding is one thing – gaining support is another, altogether more complex challenge. In our experience this can only be achieved through open and frank dialogue – based on mutual respect, trust and confidence. Business performance will go so far to satisfy the needs of the investor but when things go wrong or when there is a need to make smart course corrections, as will surely be the case in the complex world that we now inhabit, it is the quality of dialogue and understanding built up over time that will be all important.

Take the case of a privately owned growing company where the owner managers have handed over control of the company to professional managers. Only in practice they haven't and have continued to interfere in the management of the business. Not an unfamiliar story perhaps but a reminder of one of the forms that lack of support and alignment can take. The owners question the need for any kind of vision, being instinctive entrepreneurs, and struggle to engage in meaningful debate about the future of the company as they prefer to focus on product and technology. In this case relationships have come under enormous pressure and huge amounts of time and energy are absorbed in in-fighting and debates about the need for, and nature of corporate governance. There is a strong case for non-executives and new investors to get involved, if the owners can be helped to see that it is firmly in their interests.

Consider the case of mobile and online game publisher Miniclip, who have secured a new majority investor Tencent, one of the largest Internet companies in the world and which has cut similar deals with other game companies. "Tencent and Miniclip share the vision of bringing the most compelling and innovative games to our users," said Steven Ma, Tencent's Senior Vice President. "Miniclip has a strong track record in developing hit titles with long life span and universal appeal. We look forward to collaborating with Miniclip to deliver more exciting and enjoyable game experiences to fans worldwide." Miniclip has secured an investor with which it shares a vision and that can add value to its core business and enable it to grow.

Consider your own company's relationship with its investors:

- Do you have the sustained investor support you need to achieve your vision without the sort of pressures that are not in the interests of any other stakeholders?
- Is the relationship with the investors allowing for trust-building and adaption?
- If not, what do you plan to do about it?

#2 Commitment to Sustained Performance

“Vivendi investors twist and shout over payments”
[Financial Times; 25 March 2015]

In our first blog we argued that the Board and investor community needed to be aligned around the vision and goals for the long term future of the business. The Financial Times carried an article concerning a difference of opinion over the Group’s dividend policy between the Board of Vivendi, the French media group led by Vincent Bollore, and a minor (less than 1%) shareholder. The shareholder is a US Hedge Fund who describes his organisation as “deal junkies”. The FT profile of Bollore states: “He patiently built an empire of more than €15 billion”. Hardly a marriage made in Heaven!

The challenge facing Vivendi is not unusual, it represents an all too common situation facing the Board and CEO of a listed company in today’s world. At the heart of the issue is the balance between long-term sustainable performance and short-term financial gain. This is perhaps one of the most significant challenges facing modern capitalism. Are businesses run for the benefit of a relatively small set of investors – or should they be more concerned with the wider stakeholder community?

Let’s be clear: The Board’s responsibility is ultimately to the long-term, sustainable health of the business. But to be credible in the eyes of sceptical investors, company leaders must demonstrate their ability and commitment to deliver good long-term sustainable performance. The CEO and senior team will need to demonstrate that they are able to manage their business confidently through the complexity of today’s fast paced world and produce results. What does this mean exactly?

It means every member of the team must play their part in creating and delivering on the vision – from delivering forward thinking, customer focused product and service offerings to managing the cost to serve and aggressively maintaining price competitiveness and margins. From managing brand equity to maximising customer retention and acquisition. From managing company culture to maximising employee retention and recruitment and customer acceptance. None of this is possible by focusing on financial results alone. And it has to be accomplished in an extremely dynamic context.

The above requires the CEOs and their senior colleagues to be completely aligned about what needs to be done and how to execute their strategy. The alternative is that the team will splinter and create uncertainty within the senior management and in the wider business, encouraging infighting and politicking.

Such alignment takes time to establish which suggests that a degree of continuity within the team is key to maximising the experience and knowledge available to the CEO. But the dangers of group think are high; teams that have been together for some time can easily become complacent and lose sight of changes in the market that quickly affect the performance of the business. So new perspectives are needed to keep the thinking fresh and current. This presents yet another challenge to the CEO; when and how to introduce new people into the team without causing disruption and how to benefit from the contribution they can make without the longer serving members closing them out. A difficult balance, but one thing is certain; the greater the trust and alignment within the team the more likely they are to welcome the challenge of the 'new blood'.

We need to ask the question of every team member; "Is this person capable and minded to uphold the long-term vision of value creation for the business?" Let's be honest, members of top teams are often there because they are excellent at leading their function, not because of their strategic skills. This has to change. Michael Birshan and Jayanti Kar, writing in the McKinsey Quarterly in July 2012, suggest three strategic skills are required:

1. Understand what strategy really means in your industry

2. Become expert at identifying potential disruptors

3. Develop communications that can break through

Unfortunately members of senior teams sometimes struggle to lift their sights beyond the immediate challenges they face. There are many reasons, not least because for many people it is more natural to focus on the immediate than to try to anticipate the future. But anticipating the future is what is required if we want sustainable performance, not just performance.

The CEO is key to all of this, performing a constant balancing act between the needs of the investor community and the wider stakeholder community, ensuring that there is sufficient certainty around the strategy and direction to maximise execution, while staying open to changes in the environment that may require a course correction, keeping the team together and aligned while recognising the need for new perspectives and managing these changes effectively.

As we all know, the wrong incentives lead to the wrong behaviour, so Boards have to gear a major portion of the CEO and senior management's reward package toward an appropriate set of performance-based objectives that stretch over multiple years and are benchmarked against a relevant group of companies. We need to create alignment between management and shareholders. Some element of the package should be held back until after the CEO leaves the business to ensure they are more concerned about their legacy and the performance of their successor, since some portion of their wealth will remain locked up in the business.

To defend against a short-termist, aggressive investor, the management must come from a position of strength; this position must be secured by the CEO and his/her team. A huge challenge but the alternative is to be on the back foot and fighting an often public and dispiriting battle. "Boards can choose to shake free from the straitjacket of quarterly capitalism, but doing so will require discipline and nerve, backed by a strong culture, shared values, and, most important, Board leadership" (Julie Hembrock Daum, Edward Speed, Perspectives on the Long Term, March 2015).

Unilever, the consumer goods giant, announced back in 2011 that it was giving up quarterly reporting of its profits because it was distracting for management, and told investors very little about what really mattered in the business. Paul Polman, CEO of Unilever, says "We have aligned management incentives for the long term and invested heavily in R&D to build our pipeline of innovations. In addition, we have moved away from quarterly profit reporting; since we don't operate on a 90-day cycle for advertising, marketing, or investment, why do so for reporting?"

An impending EU rule change designed to discourage short-term thinking in financial markets may give the Boards of other European-listed companies more confidence in committing to long-term investment plans: interim management statements will no longer be mandatory, leaving companies to decide on the timing and content of their communications to the market. Perhaps Boards should take full advantage of this new flexibility by seeking to refocus investors on the company's longer-term goals.

How well aligned is your senior team about what needs to be done and how to execute its strategy? Are your conversations future-orientated or more concerned with quarterly results? And what are your plans for creating the vision and alignment that your business needs?

#3 Appropriate Diversity in the Leadership Team

As I write this blog and sift through the articles and publications it is clear that the word 'diversity' has many meanings. For some, it will mean the challenge of more gender balance on boards and in senior management positions. For others, it may mean cultural diversity in the leadership of a global company such as BP or Lafarge. Value Partnership's principal concern is that companies make sound judgments that, when executed, generate growth, profit and employment.

So let us define what we mean by diversity in simple terms. For us it is about differences in mental processes, perspectives and judgments. It is about what has been termed 'cognitive diversity', which is what really matters from a business perspective. A range of people with different experience, education, gender, culture and personality will more likely yield cognitive diversity.

Rich Karlgaard, in his book, explores how this cognitive diversity increases the ability for the team to make sound judgments on major decisions – and highlights that diversity can interfere with communication, so creating disharmony. For diversity to work at enhancing team performance, leaders must realise how to deal with the differences. This is backed up by our own research, where highly diverse teams were often cited as valuable - but a real handful to manage. This is not a free lunch.

Gerard Kleisterlee, Chairman of Vodafone said "*...the real issue for me is difference of perspective. You should have a board where people are able to look at the issue from various angles, with a difference of perspective. That creates a rich dialogue*". He goes on to say how important it is that you not only have diversity, but that that diversity is heard.

So appropriate diversity is meaningless unless the views expressed by team members are discussed and debated and, as by definition, they will be different, which may produce an uncomfortable level of conflict in an environment that otherwise seeks to find consensus. Diversity comes at a cost. As a minimum, the impact of diversity is likely to add to the cost of decision making as more time together to understand differing viewpoints is needed. It is likely to be a slower process, but with a far higher quality of outcome.

Furthermore, the danger of 'group think' is huge. Not only because the decisions they make are likely to be questionable but because the process reinforces itself. "We had the debate and we came to similar conclusions based on the facts and we are all experienced business people – so something else must be wrong".

In his book "**Strategy Bites Back**" Henry Mintzberg quotes a cognitive psychologist, Watson, who researched this field for many years and came to the conclusion that "*90 percent of all the information we are searching for aims at supporting views, beliefs or hypothesis that we have long cherished*". So if a leadership team is composed of people with similar backgrounds and experience and hence similar patterns of bias they are likely to make similar judgments and decisions. But if the context in which they operate is very different – say broader geographies – than their collective experience it is more likely that the judgments and decisions they make, however consensual, are likely to be wrong. This is why diversity is now business-critical. The dynamic environment we all inhabit in the 21st Century cannot feasibly be grasped by a singular group of like-minded people.

If we want diversity, recruitment is likely to be more difficult – how often would a CEO say to their HR Director"*I like candidate A, they think like me*". Increasing concern over skills shortages are forcing CEOs to rethink their hiring and talent strategies, according to PwC's 2015 annual global CEO survey. The author of the report, Jon Andrews, said the rise of digital had "*transformed the skills shortage from a nagging worry for CEOs into something more challenging*". "*Businesses are faced with a complex and shifting world where technology is driving huge changes,*" he said. "*They desperately need people with strong technology skills that are adaptable and can work across different industries, but these people are hard to find and they can afford to charge a premium for their skills.*" "*Organisations can no longer continue to recruit people as they've always done – they need to be looking in new places, geographies and from new pools of talent,*" he said.

This must be right, especially for leadership teams. And it is at the heart of assembling a team that has the range of perspectives needed to steer the business through turbulent waters. Leadership teams must become more diverse and decision-making will become more complicated. To be successful, leadership teams need that diversity of experience and perspective in order to make sound judgments. Needs must.

#4 A Positive Organisational Culture

“Culture trumps strategy every time”. This was the headline from an article in the Harvard Business Review written by Nilofer Merchant in 2011. Her conclusion to the article; “After working on strategy for 20 years, I can say this; culture will trump strategy, every time. The best strategic idea means nothing in isolation. If the strategy conflicts with how a group of people already believe, behave or make decisions it will fail. Conversely a culturally robust team can turn a so-so strategy into a winner. The ‘how’ matters in how we get performance.

But does culture really matter that much? Recent events suggest it does.

In 2013 the Economic Intelligence Unit commissioned a report entitled “A crisis in culture”. This report followed the financial crisis in 2008 and concluded that what was needed was a change in culture if the industry was to regain the trust and respect of the wider community.

In July 2015 Andrew Hill in the Financial Times wrote an article with the headline “Tiny signs of a coming scandal – and how to spot them”. He looked back at the much publicised Enron disaster and at a response from the Institute of Business Ethics, suggesting that Internal Auditors could help to spot the symptoms of incipient malaise.

Even closer in time we have the VW scandal. Interestingly, in April 2015 the Financial Times carried an article “Volkswagen bids farewell to a ferocious patriarch”. This followed the resignation of Ferdinand Piech, the long standing chairman of VW. In his article he comments “The car maker is widely admired for its long term focus on engineering excellence. Fewer souls would choose to ape its governance regime”. He commented that “Mr. Piech’s grasp was legendary (his) prestige made it impossible for any Chief Executive to escape his shadow, or to make changes that might suggest the chairman had ever made mistakes”.

These few well publicised examples suggest that culture does indeed matter; most obviously when that culture is not serving the interests of the business. So what do we at Value Partnership mean by a “Positive Organisational Culture”? A positive culture is one where the way people operate, individually and collectively, helps to successfully implement the strategy. It leads to the right focus of energy and resources. It helps people to think about customers, competitors, and employees in a way that truly serves the business. One organisation we know well that has experienced massive digital disruption and carried out a major strategic review in recent years, leading to radical cost initiatives, M&A and organic launches, views culture as the central challenge for a more dynamic business. As the MD put it, "cultural change is much harder than the science bit!"

The single most critical factor in achieving culture change is institutional leadership. Leaders are role models for the mindset and behaviour they expect in others. Ed Schein, a former professor at the MIT Sloan School of Management, has carried out research in this area and concluded the top 3 factors affecting culture change are:

- What a leader attends to, measures, rewards and controls
- How leaders react to critical incidents (do you or they get defensive, go on the attack, support, blame?)
- Leader role-modelling and coaching

So the message to leaders is uncomplicated. It matters not what you say as a leader, but what you do. What you say matters to the extent that it needs to match what you do or your integrity is open to serious question. Dupont is world famous for its culture of safety and consequent safety performance. The message in Dupont on this is uncompromising: You get the level of safety performance and excellence that you, as a leader, personally demonstrate that you want.

When CEO Andrew Wilson of Electronic Arts declared that he and his Exec were committed to the 'player experience' and that they wanted the whole of EA to respond around this focus, he got a positive response from the organisation. Why?

- He knows the business – he used to run the FIFA game studio – so he starts with credibility
- The Exec gave teams more space to evaluate where they are at any given moment
- The company started beta testing games with players, & responding to their feedback
- Significant launches were delayed to ensure quality
- Incubator space was created in studios
- Player-tested innovations were introduced

The share price of EA has more than doubled since the EA Exec launched the player-centricity focus.

So it comes down to the single most critical factor; Leadership. Leadership from the institutions who govern and manage enterprises and leadership from within the institutions themselves.

Too often, when we talk with people in organisations, they describe the misaligned and self-interested behaviour they see in their leadership team. Executive Team members who, for whatever reason, stand apart from the message of the CEO or their colleagues. This could be driven by inappropriate reward structures, and tends to be coupled with the presence of dominant individuals who may be more concerned with their own interests than the success of the business as a whole. As a result, the Executive Team lacks the credibility within the organisation that is the fundamental basis for productive leadership.

When the writing was on the wall for Lehman Brothers some of the most experienced people on Wall St were trying to persuade the CEO to change course before it was too late, they found Dick Fuld, Chairman & CEO 'seriously out of touch with reality' to quote one insider. Other members of the Executive Committee of this investment bank founded in 1850 were reportedly engaged in a power struggle for the top job. At a crucial moment, the leadership was blind to the reality of what confronted them, focused on their own self-interests and unable to respond.

The prize of an appropriately aligned and effective leadership team is credibility and certainty, as seen by the organisation, on what really matters for the business to be successful. Given the scale of the impact of culture on business performance, this is of huge importance to the business.

The Economist Intelligence Unit might be right to entitle their report "A crisis of Culture". But what we see is a crisis of leadership. And that is a tangible, visible and influence-able thing. It is the input that we should focus on, not the output.

#5 Constructive Conflict

First a brief conversation…

PA to member of Executive Committee: “Don’t forget you have the monthly ExCom meeting on Friday.”

Exec: “Oh great (ironic) another day wasted. As if I don’t have enough on my plate to waste time in another pointless meeting. Oh well, can you talk to the Regional Sales Managers for me please. I need to have full reports on sales for the month – new leads, any confirmed sales not yet recorded; you know the drill. Oh and can you find out about our newest potential client, not sure exactly where we are with that one and the CEO has a bee in his bonnet about them. I need all the details, don’t want any surprises. And can you tell all the team to be available for calls on Thursday prior to the meeting; I may need to call for information.”

PA: “Sure I have already e-mailed them for the info and suggested they need to be on stand by. Have you got the minutes from the last meeting; I have a copy here for you?”

Exec: “Great, thanks. I think mine are in the file somewhere. Were there any actions with my name against them? I haven’t looked to be honest.”

Is this a story that resonates with you? Do you dread team meetings; do you already know that despite several hours of discussion no meaningful decisions will be made and no one will be held accountable even if they are? Do you breathe a sigh of relief when you get to the last item on the agenda?

It doesn’t have to be like this. As a director of your enterprise this meeting should be something you really look forward to. It should be exciting. You are going to discuss with your colleagues – your most important team – how you are going to collectively lead the business going forward and move closer to your team’s primary goal, using the collective wisdom, technical and professional skills around the table – and beat the competition.

What could be better than that?

Maybe your situation feels more like the cameo conversation rather than the utopian dream? Does it feel more like you are competing with your colleagues rather than the competition? Does the agenda inspire you or is it a poorly thought through re-run of last months' meeting with a few minor changes? Are the really important challenges or risks facing the business on the agenda?

In your minds eye do you already see the meeting playing out? The presentation of the month-to-date and year-to-date numbers by the CFO and the comparison to budget, followed by a forensic analysis of any variances. The 'excusable variations' and the unspoken consideration of who is really responsible for any problems. The descent of this debate into aggressive or passive–aggressive behaviour as individual members defend their position or keep their heads down. Old battles are re-hashed while the CEO gets more and more agitated about the lack of progress and insightful debate, eventually leading to the inevitable; "Guys (because unfortunately it usually is) we agreed last month that we were going to do this but nothing has changed. Are we committed to this action or not?" Usually followed by some nodding of heads and a large degree of silence. Then the coffee arrives which provides an opportunity to regroup and move the agenda on. The underlying problem is not discussed; the inability of the team to have the real conversation.

The only person to benefit from this exchange of positions is the elephant in the room, quietly feeding off the unspoken words.

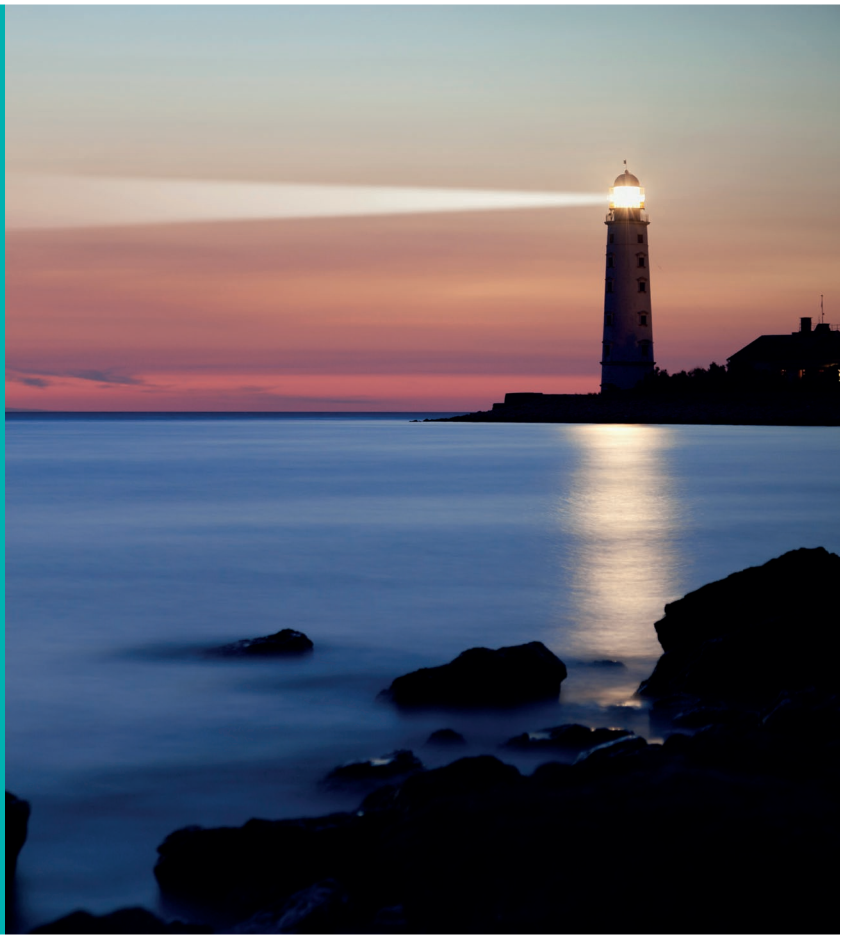
What is really going on here? In his book 'The Five Dysfunctions of a Team' Patrick Lencioni describes the underlying dynamics of our story. A lack of trusting relationships rooted in an unwillingness to appear vulnerable. As a result there is a fear of conflict and artificial harmony in the team; conversations are guarded and comments veiled. This results in low commitment caused by the lack of real discussion and challenge around the table. Decisions that are made are not fully bought into which drives a lack of accountability as peers are loathe to call each other to account for actions that did not really commit to. Ultimately this leads to an inattention to results as individual team members are more concerned with their own needs and egos rather than the primary goal of the business.

Describing the problem is one thing; tackling it is another. There is no short-cut. The behaviour of the team leader is a central issue; if they are open, demonstrate vulnerability themselves ("I don't yet know the answer" for example) and show a real commitment to the team, the opportunity for progress is there. But even with favourable conditions, the team needs to put the work in to learn a new pattern of business-driven behaviour, starting with a set of shared goals and a strong, mutual desire to achieve them, matched by the quality of conversations in the room.

A tool we sometimes use enables the client to see clearly what the quality of conversation is and provides the data to act. Our partners at "The Right Conversation" have done much research in this area and have produced a simple tool that gets right underneath these issues. The team are then able to see themselves and their behaviour clearly and with skilled facilitation can learn to act on that insight to better serve the business.

The world is changing and moving rapidly to a more social business model where the interactions between people will more and more determine success. Otherwise how can we tap into the range of experiences and ideas available in the team? Good conversations matter.

#6 Outside in working

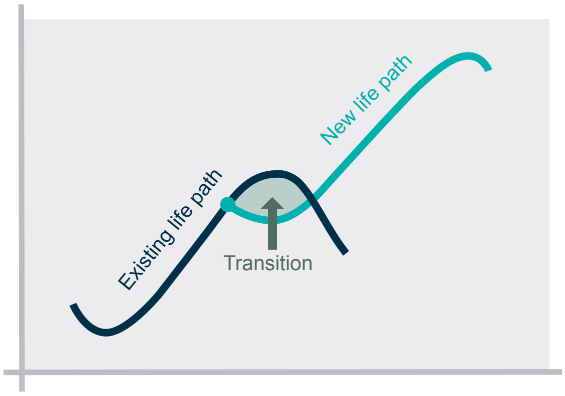


After a pleasant meal in London with a colleague, we were going our separate ways and decided on two taxis. The rain was pouring down and the thought of standing outside trying to hail a black cab in competition with everyone else was not inspiring. My colleague, phone in hand, told me that two cabs were on their way, while we waited inside in the dry for them to arrive. Uber. And it was cheaper than I expected.

No wonder the black cab drivers are up in arms.

This little story emphasises the point that businesses only exist to serve a customer need but if that need changes or there are better alternatives and the business doesn't adapt to them it will face a very uncertain future. This means they have to be very adept at spotting changes in their customer needs and the competitive environment in which they operate and to be willing to change their business model or operating procedures quickly to stay ahead.

This is nothing new, the concept of the sigmoid curve, which plots the birth, growth, plateau and (if nothing is done) eventual death of a company or product has been around for a good many years. Most business people would recognise this model and agree with it conceptually. But the really difficult question is how do you know what part of the curve you are currently on? Some companies, such as IBM and Wells Fargo seem to have managed this very well and reinvented themselves successfully. Others like Kodak, Blockbuster and more recently the major UK grocers seem to have failed to do this.



Were they just lucky and committed to a transformational change in their business at the right time; or was there something more fundamental going on? Some research carried out by Mark Bertolini, David Duncan and Andrew Waldeck and published in the December edition of the Harvard Business Review suggests that successful companies do not rely on luck. They have processes in place to look outside the business and interpret changes that might look relatively small but would ultimately cause huge ripples in the industries of which they were a part. The leadership teams of these businesses have a strong external focus and are not afraid to challenge themselves to understand how these small changes would impact their current status and change their businesses accordingly. This is 'outside in' working.

Unfortunately there are many obstacles to such thinking. The essence of the sigmoid curve is that businesses should reinvent themselves before they hit the plateau, that is, when times are good and the business model is working and producing good results. To embark on a transformational change program at such a time would be a brave move. Employees would be concerned and perhaps cynical of the reasons for change, existing customers could easily be confused and the financial markets would at best be uncertain about the future direction and strategy of the enterprise. So it is a big bet on the future. But then so is the status quo.

The research carried out by Bertolini et al, who faced the same problem with their business, suggests that there are what they called 'Fault Lines' that can be identified that point to the sustainability of a business or point to the "ground beneath a company being more unstable than it may appear". These Fault Lines focus on 5 key areas for questioning;

- Is the business serving the right of customers in the right way?
- Is it using the right set of performance metrics?
- Is it positioned properly in its ecosystem?
- Is it deploying the right business model?
- Do its employees and partners have the necessary capabilities?

This seems to be a pretty good list of questions. As in all things it is the quality and perspective of the questions that adds the insight and value. Bertolini et al provide a check list of the questions they would ask and what is noticeable about these is that they are all future orientated and concerned with what is missing not what is currently in place.

As an example of this, a company I worked for early in my career conducted some customer research, but what was different is that the CEO wanted the majority of the research effort to be focused on potential customers who should have been buying from us but were not. He had a pretty good grasp about our current customers but wanted to know what was preventing non-customers from buying. The results of that research were far more enlightening than the usual customer satisfaction surveys and opened up opportunities for growth.

The 5 Fault lines not only help to plot the position on the curve but also, through the gap analysis, provide a clearer vision of the future and an agenda for change. It will inform the work of the sales and marketing teams, provide a context for the operations and finance functions and inform the HR function of future capability requirements.

As Ginni Rometty, Chairman, President and CEO of IBM said; "reinvention is not about protecting your past; we did hardware for 60 years. Don't protect your past and don't define yourself as a product".

#7 Pivot capability

Businesses need to constantly scan the environment to detect early signs of change that could impact the business. There are examples all around us of businesses that have failed to recognise these changes until too late and have, in some instances, paid the price. Think of the growth of video and music streaming and the impact that has had on retailers such as HMV or rental firms such as Blockbuster.

The challenge for the leadership team is to simultaneously focus on the job in hand, delivering this years performance, while at the same time trying to build a different future. The term 'pivot', introduced by entrepreneur and venture advisor Eric Ries in an article on Lessons Learned, is used to describe how smart startups change direction quickly, but stay grounded in what they've learned. They keep one foot in the past and place one foot in a new possible future. So how does this idea apply to much larger businesses?

The day job requires a clearly developed and communicated strategy. Business systems, procedures and policies are introduced to 'de-risk' the execution and managers and employees work within them to deliver the goals and objectives. Many businesses are good at doing this and there are few that do not have some form of continuous improvement to underpin performance. A level of bureaucracy develops that ensures things happen as planned. Everyone knows what is needed to succeed and it feels like things are under control.

But what happens when you are thrown a 'curve ball', and something happens in the environment that threatens the status quo? The strategy is revisited and course corrections are made, often intended to be transformational. Huge energy is consumed as new teams are formed, communication goes into overdrive and quite often a new organisation is created. Experienced managers and employees often see this as 'moving the deckchairs on the Titanic'. After several months it becomes apparent little has changed; the business, in the main, is still doing what it always did. The change programme is not delivering fast enough and the threat on the horizon is now very evident in the backyard.

Understanding culture and capability is key. Many rugby fans were shocked by England's poor showing in the 2015 World Cup. The decision to go for a line out, the traditional power game of England, in the game against Wales, when a 3 point kick would have secured a draw and almost certain qualification for the quarter-finals was disastrous and ultimately cost England a place. The Economist (October 16th) reported that, based on data drawn from tier one matches, the chance of success from a 5 metre line out was 9.8%, however the chance of success from a penalty kick from this range and angle was 70%. The three points would have secured a draw and a 73.4% chance of going through. A very vivid, and painful example of not understanding capability and following a natural reflex when a different approach was better.

How many companies believe, probably passionately, that they can effect change when the numbers (more than 70% of change initiatives fail) clearly suggest otherwise? The culture of the organisation has over time developed to be aligned with the strategy and 'how we do things around here'. Current performance is what will secure my job and possibly my bonus. For most people, most of the time, their focus will be on doing what they have always done.

James Belasco wrote about how you teach an elephant to dance. In my experience you don't; elephants were not created to dance. They do not have the elegance, agility or nimbleness to dance. At best they will achieve a comic, clumsy parody imitation. Customers see through ineffectual change efforts. An article by John Kotter, published in the November 2012 issue of the Harvard Business Review, may provide a better answer. In 'Accelerate!' he highlights the limitations of hierarchy and conventional change management and argues that businesses need to establish a dual operating model to enable change. As he puts it:

"The solution is a second operating system, devoted to the design and implementation of strategy, that uses an agile, network-like structure and a very different set of processes. The new operating system continually assesses the business, the industry, and the organisation, and reacts with greater agility, speed, and creativity than the existing one. It complements rather than overburdens the traditional hierarchy, thus freeing the latter to do what it's optimised to do."

The core of the business continues to do what it always has, perhaps with minor adjustments, while a new organisation is set up to create the new vision. As he says this is not an 'either or' option but a 'both and'.

The new organisation is part of the whole but it is not bound by the bureaucracy that dominates the core business. It is more nimble and agile where strategy is a dynamic force rather than a detailed execution plan. As there is less hierarchy it is less risk adverse. The operating style is 'searching, doing, learning and modifying' and as there are less people this is more dynamic and responsive. As it is staffed by 'volunteers', managers and employees who already see the need for change and want to be involved, they do not need convincing or motivational strap lines. They can keep the team tight while leveraging the whole organisation for technical skills and information. The emphasis is on leadership rather than management. And most important of all in today's world, they are quick.

Are you facing change in your business and frustrated by the time it is taking to see real progress? Could a dual operating model make the difference? It could enable you to learn from the past and build a different future at the same time.

#8 Strategy in action

When we first published our research into Executive Teams we reported that 85% of senior managers interviewed are not confident that they are executing strategy effectively. A cause for serious concern, and yet it will not surprise many seasoned Executives. For as long as we can remember, this problem has been there. Much of our consulting work is designed to address this shortcoming.

So why is this the case? Why is it so hard to implement a strategy? In our experience, as both senior managers and consultants, it is not that companies lack some kind of strategic intent. They frequently know, broadly speaking, what they are trying to do. It is the doing itself that confounds them.

The late, great Peter Drucker once said: “People often overestimate what they can accomplish in one year. But they greatly underestimate what they could accomplish in five years.” This resonates strongly with our experience of working with Executive Teams. There is a temptation to take on way too much (and maybe avoid making difficult choices) in year 1 and by the end of that, the hard work of seeing significant changes through has become readily apparent. The inconvenient truth is that anything important happens rather slowly.

In the age of ‘Unicorn’ companies, transforming the possibilities in an industry in double-quick time, it is becoming unfashionable to look at the hard yards of progressive transformation and continuous improvement. Hilton took about 100 years to create a business that has a capacity of 700,000 rooms. Airbnb has a capacity of 1 million rooms, a feat that has taken less than 6 years. Remember however, that the Airbnb’s of this world are set up for ‘new’.

It matters greatly to the majority of businesses to master more progressive change. If you can get 10% better every year, then you will be about twice as good in less than 8 years. This is the mathematics of sustainable organisational change. Not quite as exciting as the world of Unicorns is it? It’s real though, and over time it makes a massive difference. It takes deep, repeated study and a gestation period to successfully change. It takes applying ideas to the world, feeling them out, re-doubling yourself, and trying again. Not giving up when you forget or fail. It is through the process of refinement that we learn new habits and ideas.

As we look back on the 8 Foundations from our research what strikes us is that there is a common thread. That thread is what it takes for the successful leadership of change. It requires forming strong relationships that can survive and benefit from challenging conversations. It requires building a diverse and talented team. Creating a positive culture. Being aware of, understanding and responding to external influences. It may require being prepared to stop doing something when it is not having the results we wanted, admitting that we got it wrong and changing course. Change leadership requires very human traits.

Unfortunately, too often we see short-term performance pressure from investors that drive short term or unrealistic decision making by Executives. The Executive Team needs to muster enough confidence and clarity to avoid over-promising and consequently under-delivering. To create the breathing space within which they can deliver real change, leaders need a credible strategic story and a reputation for delivering on promises that is hard won. It comes from an assertive confidence not just a desire to please. You need to earn the right to be trusted to deliver over time and to operate strategically.

The strategy needs to be translated into a compelling roadmap that is simple, visible to everyone involved, shows the lead measures and tells us at a glance where we stand. Compelling means that those people who have to deliver it believe in it, they know why it is worth going the extra mile for it. Getting the lead measures right is an essential precondition for managing the progress of strategy execution as a team. Profitability matters, but the best way of delivering it is by focusing on the drivers of profitability, which means understanding the market, the customer delivery required and the organisation that will make it happen.
With this, the team can decide when and how to ‘correct course’ as it steers the organisation through changing market conditions.

In conclusion

These 8 Foundations set out what is required for an Executive Team to provide the organisational leadership that will sustain business competitiveness. Work at all the Foundations and successful strategy execution will be more likely to follow. They do not represent a quick fix, or a ‘silver bullet’. But they will serve you well if you care about the future, not just the present, of your organisation.

When you reflect on them, do they relate to your experience or current situation? Are you facing some of these challenges with your colleagues? If so, get in touch.

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